

**MINUTES OF THE REGULAR MEETING
OF THE BOARD OF DIRECTORS
OF THE BETHLEHEM AUTHORITY**

JUNE 10, 2010

The regular meeting of the Board of Directors of the Bethlehem Authority was held on June 10, 2010 in Conference Room B504, 10 E. Church Street, Bethlehem, PA. The meeting was called to order at 3:30 PM by Chairman Mark Jobes, with the following also in attendance:

John Tallarico, Vice Chairman
Richard Master, Secretary
Vaughn Gower, Treasurer
James Broughal, Esq., Solicitor
John Filipos, CPA, Controller
Stephen Repasch, Executive Director
Sandra Reppert, Administrative Assistant
Daniel Meixell, Special Officer

APPROVAL OF MINUTES

Chairman Jobes presented the minutes from the regular meeting held May 13, 2010 as circulated. Mr. Gower moved to approve the minutes. Mr. Master seconded. Motion passed unanimously.

RECOGNITION OF VISITORS / COURTESY OF THE FLOOR

- Mr. Jeff Andrews, City of Bethlehem, Superintendent of Water Supply and Treatment
- Mr. Dave Brong, City of Bethlehem, Director of Water and Sewer Resources
- Mr. Stephen Antalics, Bethlehem Resident
- Ms. Jean Belinski, City of Bethlehem, City Council
- Mr. Eric Evans, City of Bethlehem, City Council
- Mr. Jeff Williams, Hellertown Resident
- Bethlehem Press

REPORT OF THE CHAIRMAN

Wind Energy Developer Evaluation. Chairman Jobes reported that this initiative continues to move forward. Initially two developers – Delsea and Iberdrola – expressed interest in the possibility of developing wind energy on Authority land. Since the proposals were vastly different, the Board asked its consultant, Broadlands, to help find additional developers. Broadlands wrote and sent out RFP's to 15 major wind energy development companies, who had to notify Broadlands by June 8 of their intention to bid. It has been communicated that several companies

will submit bids by the 3:00 PM June 25 deadline. Mr. Gower has helped develop a “score card” for evaluating the proposals, and July 30 is the target date to formally select a developer. The next initial step after that would be putting up the met towers to measure the wind at different sites to see if it is even feasible. This is going to be a long process.

(Mr. Repasch would like the board to delay the Chairman’s next agenda item till Bud Cook from The Nature Conservancy arrives.)

Mr. Jeff Williams queried the areas of Authority land the developers are considering and where the wind towers will be erected. Mr. Tallarico responded that the Authority is looking at the feasibility of wind energy on all its property, in general. Mr. Repasch added it is the developer’s decision as to where they prefer to put the met towers, and if they get beyond that stage where to erect the turbines. Negotiations would begin at that time.

Chairman Jobes said the initial two developers had selected some areas they were interested in, based upon wind maps. Met towers could indicate there is not enough wind and wind energy might never be developed at those sites. Again, he said this is a long process and the Board is just beginning to find out (1) who it wants to use to explore wind energy development and (2) the feasibility of it even being developed. We actually took a few steps back in opening up the issue to involve all the major players. However, stating what the Authority wants allows for equal evaluation.

Mr. Williams queried if the RFP includes the dollar amount per acre for leasing the land and how many acres there are. Mr. Repasch responded the RFP is partly based upon that. A rule of thumb is more or less than an acre of land per turbine is disturbed, and there are revenue sharing options based upon generation. Mr. Tallarico added it is actually three acres per turbine when the roads are factored in, but it is roughly one acre per turbine, and grassing is done right up to the turbine.

Mr. Master recalls the environmental concerns Mr. Williams spoke about at a previous meeting. How the developers approach environmental issues is part of the RFP evaluation. The impact is high-profile. Ultimately, the successful bidder is going to be the one who takes the most care in considering everything. The Board hired an expert that understands this type of project development and criteria has been established to evaluate RFP’s. From his perspective, the Board has done a very thorough job of setting up the competitive bid process.

Mr. Tallarico said the Authority cannot afford a feasibility study for the wind itself. That cost alone is upwards of \$200,000. Mr. Gower added there’s a lot of risk involved for the developer if there is not enough wind. But, if there is wind, every step of the way will involve an agreement of some sort. That is why the Authority needs to select a developer from the start.

Chairman Jobes concluded that the RFP’s will be reviewed in July and by the August meeting a selection will most likely be made.

(It is noted Dave McGuire entered the meeting at 3:40, Jeff Williams excused himself from the meeting and Bud Cook entered the meeting at 3:45)

Operating Authority. Chairman Jobs reported the Board continues to investigate the operating authority issue. There have been preliminary discussions with some Councilpersons to see if there is any opposition, and Council would like more information. The Board is working with its financial advisor PRAG on a plan to at least get an idea of the impact, costs and timing issues. A lot of money can be spent on these types of projects, so the Board is trying to mitigate the expense and come up with a plan of the impact and pros and cons that people can understand. Of the three topics being explored by the Board, at this point the operating authority issue would be number three on the list. It will be a long process, but the Board will continue to talk to PRAG, bond counsel and other important parties on all the financial and legal aspects.

Working Woodlands Program. Chairman Jobs reported that since the beginning of the year we have been working with The Nature Conservancy (TNC) on the Working Woodlands Program (WWP). The WWP is a certified forest management plan (FMP) that ties into carbon credits and entering into a declaration of restrictions on Authority property for at least 60 years (such declaration would be recorded). A Letter of Intent (LOI) was signed with TNC to continue negotiating and discussing the program. There was a meeting that took place about six weeks ago with Bud Cook and Dylan Jenkins from TNC. Mr. Jenkins provided a letter to the Board that addressed some of the issues. As a Board, we need to decide (1) if we move forward with the proposed term sheet from the WWP and (2) what watershed area or areas we want to look at to put into the program.

DISCUSSION

Mr. Repasch spoke to Mr. Jenkins today for some clarification on the term sheet. TNC is suggesting that they will do the inventory and FMP on the entire Tunkhannock Watershed (TWS) at their expense, even if only the upper and middle portions of the TWS are committed to the WWP.

Mr. Gower said he's really confident about including the Wild Creek Watershed (WCWS). There are uncertainties about the restrictions and time involved and not being prepared to include the entire TWS at this time. He felt there was no new information to help the Board feel differently about the 60 year time period.

Mr. Master supports the initiative but only to the extent of the WCWS.

Chairman Jobs said the Board felt it would take this initial step as it fits into a comprehensive land management plan that protects the entire watershed. The TWS has been divided into three sections – upper, middle and lower. The upper is most important, the middle is important, and the lower is least important. With regard to the WCWS, he would like the Palmerton Hunting Club join the WWP as well. They have a very large parcel of land in the middle of WCWS. It is his understanding that Palmerton has had discussions with TNC.

Mr. Repasch said he had a discussion with Palmerton's president, Dennis Hollowell, who indicated Palmerton has no intentions of doing anything with their land other than keeping it in its current state. Mr. Bud Cook added that he had a meeting with one of Palmerton's board members about the WWP. This person did not know about the program but is interested, encouraged and will present it to his board. Palmerton does not have a forestry consultant or FMP, and the club should have the things the WWP can provide. This person also mentioned how a few years ago, some

club members put together a project to sell the land to a developer, but greed and personal agendas stopped the deal from finalizing. Mr. Cook will follow up on another meeting with Palmerton's board and/or membership, although there is a general lack of involvement of the club members. Mr. Gower encouraged TNC to build a relationship with all of Palmerton's board members. He also said this is a great illustration of how the Authority needs to be careful in worrying about itself and trying to bring Palmerton along. Because of Palmerton's own history and characteristics, they may not be able to make the "yes" decision, whereas the Authority is in the position to make a decision quicker and should not jeopardize its own decision waiting for them.

Chairman Jobes said the Authority would like to have the WWP in place in the WCWS. It will also help protect Palmerton's lands for current and future generations. We can leverage this opportunity to get Palmerton in the program. If they have concerns about what Bethlehem is doing, let TNC do their best to organize a meeting with all the parties to review the program. It will give a sense of urgency to something that really matters to the club. If this Board is in consensus on the WCWS, it should move forward and begin to develop the agreements that need to be in place.

Mr. Gower brought up the questions that if the TWS is entirely excluded, then there will not be a FMP for TWS and can we live that, does it alter our decision making, does it tell us to do something else? He thinks Mr. Jenkins was trying to be helpful by saying to include the TWS now and it can always be taken out. That puts pressure on the Authority because of a deadline. By omitting the TWS in the first place, it would then be up to the Authority to add it without pressure.

Mr. Tallarico said if the TWS is excluded, then the Authority will have half a forest that is certified and half of a management plan.

Chairman Jobes would like to get started on the WCWS and perhaps in six months a decision will be made to add the TWS. Or hire a forestry consultant to do a FMP at the Authority's expense.

Mr. Repasch mentioned that there is a process involved with the City Administration and City Council. The Board would have to go through that process twice – once for Wild Creek and once for Tunkhannock.

Mr. Master said he views the Tunkhannock plateau as a whole and he's heard Mr. Tallarico say at Board meetings that 60 years is a long time. He is a supporter of TNC, but as a water company, there may be some different interests. Even if there is water generation, there is some conflict between some of what we may want to do to generate water and environmental interests. There might be a conservation easement that takes precedence, and so on. Mr. Cook respectfully suggested that the terms of the WWP make it clear that water production and generation are primary. If there is a conflict between the water mission and WWP, water comes first. There is no constraint.

Chairman Jobes said he would like to exclude the TWS for now and continue to discuss it. There is wind development and other things not even thought about that the Authority might look at where approval is needed. Rather than limiting ourselves at this point with what we know and those possibilities, let's proceed with the first step. Everyone is comfortable including the WCWS in the WWP to protect the land and have a FMP. TWS still needs to be explored.

Mr. Tallarico said the WWP protects the forest , which is part of water generation. The more he thinks about sustainability, protection, FMP, and FSC certification, those are big pluses of grouping everything together in one package, versus the one minus which is the 60 years. A good point to keep in mind is we can still do timbering operations. FSC certification is important, global and brings a higher dollar value for hardwoods.

Mr. Master queried Mr. Brong about the City's views. Mr. Brong responded that anything which can be done to continue the mission of being a quality water supplier and generate revenues in the short term are things that the City needs to be doing.

Mr. Master said we should include in the WWP the portions of land in the TWS that are definitely needed for water generation if the TNC is proposing now to do the entire FMP for TWS. Also, there are parcels outside of the TWS that will not be used in the next 60 years, so those should be carved out.

TWS is divided into 3 sections. Upper is currently set up for water production now, middle could be but would be well development project. The potential for development and the need for a regional water supplier in the future is not a foolish thought.

Mr. Broughal said it makes a lot of sense to exclude the non-water producing areas of the TWS. He's not been involved in an agreement like the WWP before, but from what he's read, the areas that would come under restriction would have to be clearly defined and surveyed. There is no other way to determine the acreage for accreditation. And if there are no boundaries, there would have to be a declaration of restrictions. If the Authority would one day want to sell land it doesn't believe is within the restricted area, it might not sell if there's any chance that TNC would prevent certain activities. If a document will be filed restricting the use of Authority land for 60 years, it should be certain that the restrictions are not on property that could be divested in that time period.

Chairman Jobes would like to finalize this discussion and would like to move forward with TNC, proposing to include the WCWS in the WWP subject to approvals from City Administration and Council. Then present the plan and proposal to the Environmental Advisory Council and sub-committee of Council.

Mr. Gower thinks that at some point, TWS will be included once the boundaries issue for land outside of that watershed area is understood. There is no need to rush for public meetings to discuss the WWP for the WCWS when there would be a redundant meeting later to add another area.

Mr. Repasch depicted in a drawing the TWS, where the intake is in the upper portion, where the groundwater is in the middle, and where not much of anything else is in the lower. Then he depicted some areas of Authority land that are outside of the watershed.

Mr. Broughal explained that a revised Letter of Intent (LOI) was given to the Board. This LOI is not a binding agreement; it is a letter expressing the intent to move forward. At some point the Board needs City and Council approval. It makes the most sense to get those approvals at the LOI stage because then he and TNC haven't been put to the task of finalizing agreements and the Authority will not spend a lot of money on something that might not be approved. He asked the Board to

please consider the direction it wants to proceed in at this stage before TNC begins writing the additional agreements that follow the expressed intent of both parties in the LOI.

After all this discussion, the Chairman said the Board is in consensus to include the upper and middle portions of the TWS and to exclude the lower portion, as long as it is feasible to do and with the Board understanding the facts about the exclusion of certain acreage. Mr. Broughal was directed to revise the LOI.

Councilman Eric Evans said that there are a lot of positives about the program.

Mr. Dave McGuire said he reported on the WWP to the Lehigh Valley chapter of the Sierra Club. In his opinion, things are moving in a positive way and will continue to do so after hearing today's discussion. He addressed Councilman Evans and told him that ten years ago, the Sierra Club was instrumental in making sure there were trees left to talk about. Council played a key role at that time and their role this time will again be important, so spread the word that the Sierra Club supports the WWP.

REPORT OF THE EXECUTIVE DIRECTOR

Timber Stands 22/24 Access Agreement. Mr. Repasch reported that the next stands to be timbered, according to the Brooks plan for the Tunkhannock Watershed, are Stands 22 and 24 (they are in the vicinity of Stand 50). There has always been an access problem to these particular stands because there is no road frontage. He has been negotiating with some of the property owners, and has reached a verbal agreement with the estate of a property owner adjacent to these stands. Rather than an easement or right-of-way, he and Mr. Broughal are working on a license agreement to access these stands on a somewhat regular basis to harvest the timber, to be used for a certain number of months per year for a period of time. It is expected to present the agreement for approval at the July meeting.

H2O PA Grant Application Resolution. Mr. Repasch reported that the City is embarking on several projects to continue the improvement of the water system. One project is the 12MG Southside covered reservoir behind St. Luke's. It is out of service because of DEP violations. The cover is beyond its useful life and deteriorating. It was also discovered that the liner is at the end of its useful life. The estimates received to get the reservoir back in service totaled ~\$2.4 million. The City is applying for a grant for 2/3 of the cost. The resolution for this grant reads as follows:

Be it RESOLVED and it is RESOLVED that the BETHLEHEM AUTHORITY of Northampton County, Pennsylvania hereby requests an H2O PA grant of One Million, Six Hundred and Twenty Six Thousand Dollars (\$1,626,000) Dollars from the Commonwealth Financing Authority to be used for the Engineering Design & Construction Administration as well as Construction of a 12 MG Water Reservoir Cover and Liner Replacement at the South Side Reservoir.

Chairman Jobses queried Mr. Brong the amount of money the City budgeted this year for the project. Mr. Brong responded \$1 million.

Mr. Master moved to approve the resolution for the grant application for the 12 MG Water Reservoir Cover and Line Replacement at the South Side Reservoir as read into the record. Chairman Jobs seconded. Motion passed unanimously.

Mr. Repasch also reported that the City is applying for a grant for the continuation of water system infrastructure improvements and similar to one currently in progress -- valve replacements, pump station upgrades, and so on. The resolution for this grant reads as follows:

Be it RESOLVED and it is RESOLVED that the BETHLEHEM AUTHORITY of Northampton County, Pennsylvania hereby requests an H2O PA grant of One Million and Thirty One Thousand Dollars (\$1,031,000) Dollars from the Commonwealth Financing Authority to be used for the Engineering Design & Construction Administration as well as Construction of a Water Infrastructure Replacement Project.

The terms are general. The design work and the investigation of what exactly has to be done will follow after this. The grants applications need to be submitted by June 30.

Mr. Brong said that there is a lot of infrastructure on South Mountain. The most significant is the 2MG tank under the Bethlehem Star that is essential to serving Lower and Upper Saucon Townships. The method of getting water to this tank is via a pump station behind St. Lukes Hospital. This pump station needs maintenance and an alternate way of getting water to the 2MG tank is needed. Also the 5th & Williams Streets pump station is included with the upgrade to increase the pumping capacity, which will allow it to also serve the 2MG tank. This will enable the system to be stronger and more flexible. This project will cost ~\$1.5 million.

Chairman Jobs queried when the grants will be awarded and the amount of engineering costs involved. Mr. Repasch the grants will be awarded by the third quarter and engineering costs for this project are under \$10,000. The engineering costs for the reservoir cover and liner are ~\$80,000 and that work is contracted with CDM. Engineering costs are covered in the grant. The monies come from the BRIF because the expenses are for capital projects.

Mr. Master moved to approve the resolution for the grant application for the Water Infrastructure Replacement Project as read into the record. Mr. Gower seconded. Motion passed unanimously.

Judicial Property Sale in Monroe County. Mr. Repasch attended a judicial property sale for a small piece of property that abuts watershed property in Tunkhannock Township, Monroe County. The hunting club that currently leases the property is using a hunting cabin that straddles Authority property and the property up for judicial sale. The Board authorized him to attend the sale and bid no more than \$10,000 for the property. He was able to purchase the property for roughly \$4,200.

Arbitrage Report. Mr. Repasch reported PRAG said they had no new information to provide on the arbitrage calculation report. They hope to have an update by the July meeting. PRAG is trying to lessen the arbitrage payment to close to zero. Any payment would be due in August, 2013.

2nd Quarter 2010 Expense Projection and Budget Comparative.

Income and Expense Projection for the 2nd Quarter 2010:

- Cash on Hand at June 1, 2010 -- \$382,100.
- Revenues Receivable – \$98,505 for the 2nd Quarter.
- Total Projected Professional, Administrative and Police Expenses – \$112,275 overall for the 2nd Quarter.
- Total Projected Cash on Hand at the end of the 2nd Quarter – \$418,370.

Mr. Repasch noted that T-Mobile is now current on their cell tower lease rental payment under the new agreement.

Expense Budget Comparative for the 5 months ended May 31:

- Professional Services – \$33,643, 16% of budget.
- Security and Property Expenses – \$10,203, 34% of budget. Mr. Repasch noted that there will be an expense next month for the roof repairs on the house at Wild Creek.
- Administrative Expenses – \$93,433, 39% of budget.
- Overall – \$137,279, 28% of budget.

Chairman Jobes queried if there are any outstanding invoices for professional services. Mr. Repasch responded PRAG's invoices are paid through April, and all the others are current.

REPORT OF THE CONTROLLER

Mr. Filipos' report for the month ended May 31, 2010 was circulated, filed and accepted without comment. He noted that ~\$1.2million was received from the COB for the May interest payments due on the water bonds, and the balance of \$285,000 in the Landfill debt service fund is for the June 1 interest payment.

He and Mr. Repasch had a discussion prior to today's meeting regarding the Maximus study. The study is behind schedule due to work load issues. They will contact the Maximus rep for an approximate date that the study will be available so they can review it.

Resolution 316: Professional and Administrative Expenses. Mr. Jobes presented Resolution 316 to the Board for approval. The resolution was circulated, filed and totals \$95,022.99 and consists of the following:

- Requisition 305 – City's water capital invoice totaling \$62,518.06
- Professional and Administrative expenses totaling \$32,504.93

Chairman Jobes moved to approve Resolution 316. Mr. Gower seconded. Motion passed unanimously.

REPORT OF THE SOLICITOR

Mr. Broughal had nothing additional to report.

REPORT OF THE CONSULTING ENGINEER

Mr. Neal Kern's report was circulated, filed and accepted without comment.

REPORT OF BETHLEHEM AUTHORITY SPECIAL POLICE

Officer Meixell's report was circulated, filed and accepted. He indicated the Game Commission conducted a rattlesnake roundup in the Hell Hollow area and they captured and tagged 13 rattlesnakes. Also, Bill Altemose, the farmer who leases the agricultural lands in the Tunkhannock watershed, planted 23 acres of switchgrass. To that, Mr. Repasch added he put Mr. Altemose in touch with the Department of Agriculture rep who gave a presentation to the Board a few months ago. Mr. Altemose filled out the forms to get reimbursed for the seed and for potentially for keeping the fields out of production for a few years. The Department of Agriculture received the forms but they are out of funds this year. Mr. Altemose went out on his own and bought the seed and planted two parcels totaling 23 acres, even knowing he would not get reimbursed. He credits the farmer in taking the initiative to plant the switchgrass. The fields are near the Hypsie Gap timber site. Once the grass is established and growing after two to three years, it can be harvested twice a year.

WATER REPORT

The Water Report for the month of May, 2010 as circulated and filed indicates the reservoirs are at 98.9% capacity.

CITY OF BETHLEHEM DIRECTOR OF WATER AND SEWER RESOURCES

Mr. Dave Brong reported the following on the Water Fund as of May 31:

- Receipts total ~\$6.8+ million against a plan of \$7.5 million.
- Invoicings total \$7.3 million. Compared to 2009 levels, invoicings are up \$38,000, but receipts are down \$65,000. The water business is moving along, but collections are problematic and the downward trends impact the cash on hand.
- Cash on hand is \$1.3 million and should be closer to \$2 million. At the end of May, the water business generated ~\$750,000 of net income, but should be ~\$1.5 million. The reality is more and more customers let their bills sit without payment for longer periods of time, but pay them before having the water shut off. The cash issue within the economy and City is deepening.

Mr. Gower queried the percentage the \$38,000 increase in invoicings over the same period last year. Mr. Brong responded it's probably less than ½%. Yet at the same time last year, outdoor water usage was down due to the cool weather and rain, and that amounted to about 3 million gallons less water consumption in 2009 than 2008, or ~\$750,000.

Capital Projects Update

Mr. Brong provided the following capital projects updates:

- The 5 MG tank at Northampton Community College should be finished by the end of the week. They intend to begin filling it next Monday morning to pressurize the system and to make sure any outdoor water usage and high consumption months during the hot weather do not create hydraulic problems. They are expediting completion of the project. Mr. Broughal queried when the blasting will be completed, and Mr. Brong replied this coming weekend.
- Construction on the Pennsylvania Avenue pressure reducing station and the 0.5 MG tank on South Mountain should be bid in early July. The total capital costs are ~\$550,000 and were grant funded for \$275,000.
- Engineering continues on the 12 MG reservoir, and the City is moving forward with a grant application. The estimate for this project is higher than budgeted, and the City will have to find a way to do this project, even if it means reprioritizing other projects.
- 5th & Williams Streets pump station upgrade. This is another improvement to the water distribution system. There is more being Learned about the system than anybody knew, based on looking into the details and drawings, talking to engineers, and so forth. At the end of all these improvements, it will be a much stronger water system from an operating standpoint.

Regarding the 5 MG tank project, Mr. Tallarico queried if the inside of the tank is painted. Mr. Brong responded yes, and a small mixer is installed inside the tank as well to make sure the water remains oxygenated.

Chairman Jobses queried the useful life of the tank project. Response was the City has contracted with a tank maintenance firm, who is paid annually to manage and maintain the tank. Knicks, corrosion, graffiti, etc. on the outside of the tank is taken care of, and every other year the tank will be drained to inspect the inside. The tank should never be in a state of disrepair.

OTHER BUSINESS

No other business.

COURTESY OF THE FLOOR

Mr. Stephen Antalics commented on the operating authority discussion. He said the Authority not being an absolute independent authority complicates its operation, consumes extra time and introduces politics by having to go to the City and Council. This was highlighted today by the Letter of Intent discussion, and if the City and Council disapprove, the Authority is back to ground zero.

Mr. Broughal pointed out that in the end, it doesn't matter if the Authority is an operating authority because the obligation to go to Council is borne from the bonds and trust indentures which require certain things. If as an operating authority the Bethlehem Authority issued the bonds and needed the guarantee of City, the results would be the same. Those steps would not be avoided.

Mr. Antalics also commented about a Dent campaign ad which brought up a previous refinancing issue between the Mayor and a former Authority chairman, and because of the delays there was a loss of ~\$1.3 million in savings. Chairman Jobs said that a refinancing is based on the market on a day to day basis. With regard to this recent refinancing, the Authority received the benefits of a good market by getting more savings because of the delays. There are pros and cons. The City is the guarantor of all the Authority's debt. That is a big issue in moving toward operating authority. Mr. Antalics said the term "back-burner" bothered him when referring to the operating authority issue. Chairman Jobs said that perhaps it wasn't the right choice of words, but from a priority standpoint, he doesn't see the operating authority issue moving forward as quickly as the WWP or wind energy development.

NEXT MEETING

Chairman Jobs announced the next meeting is scheduled for July 8. For informational purposes, the August meeting is scheduled for August 19, which is the week following MusikFest.

ADJOURNMENT

There being no further business, Chairman Jobs moved to adjourn the meeting. Mr. Master seconded. Motion passed unanimously and the meeting adjourned at 5:10 PM.

Richard L. Master, Secretary